

Michigan Department of Treasury
496 (Rev.06/08)**Auditing Procedures Report V1.04**

Reset Form

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Issued under Public Act 2 of 1968, as amended.

Unit Name	GLADWIN COUNTY DISTRICT LIBRARY	County	GLADWIN	Type	LIBRARY	MuniCode	26-8-010
Opinion Date-Use Calendar	Apr 22, 2008	Audit Submitted-Use Calendar	Jun 30, 2008	Fiscal Year-Use Drop List	2007		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? <u>NA</u>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies? <input checked="" type="checkbox"/> 19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 801,158.00
General Fund Expenditure:	\$ 654,145.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 728,817.00
Governmental Activities Long-Term Debt (see Instructions):	\$ 0.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	MARK	Last Name	FREED	Ten Digit License Number	1101012221			
CPA Street Address	5915 EASTMAN AVENUE	City	MIDLAND	State MI	Zip Code	48640	Telephone	+1 (989) 835-7721
CPA Firm Name	BURNSIDE & LANG, PC	Unit's Street Address	402 JAMES ROBERTS	City	GLADWIN	LU Zip	48624	

**GLADWIN COUNTY
DISTRICT LIBRARY**

Gladwin, Michigan

FINANCIAL STATEMENTS

**For The Year Ended
December 31, 2007**

GLADWIN COUNTY DISTRICT LIBRARY

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Independent Auditors' Report

Members of the Board of Trustees
Gladwin County District Library
Gladwin, Michigan

Dear Board Members:

We have audited the accompanying financial statements of the Gladwin County District Library (the "Library") as of and for the year ended December 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the Library's Board of Trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the Management Discussion and Analysis, which is required supplementary information and should be included in order to conform to accounting principals generally accepted in the United State of America.

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Gladwin County District Library, as of December 31, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information on pages 10, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Burnside & Lang, P.C.

Midland, Michigan
April 22, 2008

FINANCIAL STATEMENTS

GLADWIN COUNTY DISTRICT LIBRARY
BALANCE SHEET/STATEMENT OF NET ASSETS
DECEMBER 31, 2007

	Balance Sheet Modified Accrual	Adjustments Fixed Assets	Statement of Net Assets
ASSETS AND OTHER DEBITS			
Assets			
Cash and cash equivalents	\$ 16,041	\$ -	\$ 16,041
Investments	728,513	-	728,513
Accounts receivable	9,756	-	9,756
Prepaid expenses	4,662	-	4,662
Capital assets, net			
Building	-	45,865	45,865
Furniture and equipment, net	-	25,895	25,895
Library collection	-	970,581	970,581
TOTAL ASSETS AND OTHER DEBITS	\$ 758,972	1,042,341	1,801,313
LIABILITIES, FUND BALANCE AND OTHER CREDITS			
Liabilities			
Accrued payroll and benefits	\$ 30,155	-	\$ 30,155
Total liabilities	30,155	-	30,155
Fund balance and other credits			
Fund balance:			
Reserved (Williams Memorial)	526,696	(526,696)	-
Unreserved	202,121	(202,121)	-
Total fund balance and other credits	728,817	(728,817)	-
TOTAL LIABILITIES, FUND BALANCE AND OTHER CREDITS	\$ 758,972		
Net Assets			
Invested in capital assets		1,042,341	1,042,341
Reserved		526,696	526,696
Unrestricted		202,121	202,121
TOTAL NET ASSETS		\$ 1,771,158	\$ 1,771,158

GLADWIN COUNTY DISTRICT LIBRARY
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE/
STATEMENT OF ACTIVITIES
For the Year Ending December 31, 2007

	Statement of Revenue, Expenditures, and Changes in Fund Balance		Statement of
	Modified Accrual	Adjustments	Activities
Revenue			
Property tax	\$ 425,342	\$ -	\$ 425,342
Other taxes	627	-	627
State revenue	20,570	-	20,570
Grant revenue	665	-	665
Contributions	117,446	-	117,446
Library fees	17,352	-	17,352
State penal fines	176,838	-	176,838
Interest income	10,379	-	10,379
Interest income - William Memorial (CD)	25,772	-	25,772
Other revenue	6,167	-	6,167
Total revenue	801,158	-	801,158
Expenditures			
Current:			
Salaries & Wages	234,092	-	234,092
Pension	19,761	-	19,761
Payroll taxes	17,566	-	17,566
Bank charges	3,998	-	3,998
Cash short & (over)	(290)	-	(290)
Supplies and printing	12,151	-	12,151
Postage/meter rental	3,359	-	3,359
Misc/Refunds/Rebates	636	-	636
Publicity	3,898	-	3,898
Membership fees	444	-	444
Contractual services	6,500	-	6,500
Contractual services - White Pines	11,555	-	11,555
Valley library	17,711	-	17,711
Training	3,109	-	3,109
Rent	36,629	-	36,629
Telephone	8,792	-	8,792
Insurance	55,798	-	55,798
Travel	5,213	-	5,213
Legal & Professional	16,633	-	16,633
Children programs	6,271	-	6,271
Utilities	20,176	-	20,176
William Estate expenses	12,701	-	12,701
Maintenance expenses	5,270	-	5,270
Software equipment	5,627	-	5,627
Tax tribunal & Board of Review	151	-	151
Capital outlay			
Building	46,815	(46,815)	-
Library materials	96,785	(96,785)	-
Furniture and equipment	2,794	(2,794)	-
Depreciation expense	-	10,979	10,979
Disposal of library collection	-	23,400	23,400
Total expenditures	654,145	(112,015)	542,130
Revenues over expenditures	147,013	112,015	259,028
Fund balance/net assets - beginning of year	581,804	930,326	1,512,130
Fund balance/net assets - end of year	\$ 728,817	\$ 1,042,341	\$ 1,771,158

GLADWIN COUNTY DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Gladwin County District Library (the “Library”) is a governmental entity. The accounting policies of the Library conform to generally accepted accounting principles applicable to governments. The following is a summary of the more significant policies:

Reporting Entity

The Library is governed by a Board (the “District Library Board”) which consists of eight members appointed by the legislative bodies of the Participating Municipalities. Four members are appointed by Gladwin County, two members by the City of Gladwin, and two members by the City of Beaverton.

The Library has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14, and has determined that no entities should be consolidated into its general purpose financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the Library.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the Library are organized on the basis of a fund and account groups, each of which is considered a separate accounting entity. The operations of each fund and account group are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, as appropriate. Resources are

GLADWIN COUNTY DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into one fund type. The government reports the following major fund:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. The basis of accounting related to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

D. Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of materials or services. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year.

E. Assets, Liabilities, and Net Assets

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables—In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds."

Prepaid Items—Certain payments to vendors reflect cost applicable to future years and are recorded as prepaid items in the government-wide and fund statements.

GLADWIN COUNTY DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, and Net Assets (continued)

Capital Assets—Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Assets are properly depreciated in accordance with GASB 34 rules, along with the respective accumulated depreciation amounts.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Library furniture	5 to 10 years
Computer equipment	3 years

Fund Equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information—Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all governmental funds except the debt service funds. All annual appropriations lapse at fiscal year end. The General Fund budget is adopted at the fund level as presented in the financial statements, and amended as necessary during the year. The budget document presents information by fund, function, department or activity, and line items. The budget is not a line item budget. The line item detail is provided for management analysis only. The legal level of budgetary control adopted by the governing body is the department or activity level.

Excess of Expenditures Over Appropriations in Budgeted Funds—During the year, the Library incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budgeted Items</u>	<u>Budget Appropriations</u>	<u>Actual Expenditure</u>
Bank charges & fees	\$ 2,000	\$ 3,998
Salaries	230,000	234,092
Payroll Expenses	17,000	17,566
Travel	5,000	5,213
Utilities	20,000	20,176

GLADWIN COUNTY DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 3. DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Library to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Library is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptances of United States banks' commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The county board has designated one bank for the deposit of funds. The investment policy adopted by the county board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory as listed above.

The Library's deposits and investment policy are in accordance with statutory authority.

At December 31, 2007, the Library's deposits and investments were reported in the basic financial statements in the following categories:

<u>Cash</u>	<u>Carrying Amounts</u>	<u>Bank Balances</u>
Petty Cash	\$ 80	\$ 80
Bank Accounts - Chemical Bank	15,961	15,961
Certificate of Deposit – Chemical Bank	201,817	201,817
Certificate of Deposit – Chemical Bank	<u>526,696</u>	<u>526,696</u>
Total Cash Balances	<u>\$ 744,554</u>	<u>\$ 744,554</u>

At December 31, 2007, the Library's cash is held at one banking institution and in one bank account and two certificates of deposit. The FDIC insurance would cover up to \$100,000 for each separate bank for a total of \$100,000.

GLADWIN COUNTY DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investment and Deposit Risk

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. The Library does not have a deposit policy for custodial credit risk. At year end, the Library had \$644,554 of bank deposits (certificates of deposit, checking and savings accounts) that were potentially uninsured and uncollateralized. However, the Library would greatly decrease this investment and deposit risk if they diversified their funds over several different banks.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, that Gladwin County District Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year end, the Library had no investment activity.

Interest Rate Risk. Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. State law limits the allowable investments and the maturities of some of the allowable investments. The Library's current investments have no potential interest rate risk.

NOTE 4. CAPITAL ASSETS

Capital asset activity of the Library for the current year was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Library Collection	897,196	96,785	23,400	970,581
Capital Assets Being Depreciated				
Building & Improvements	-	46,815	-	46,815
Furniture & Computer Equipment	77,041	2,794	-	79,835
Subtotal	77,041	49,609	-	126,650
Less Accumulated Depreciation for				
Building & Improvements	-	950	-	950
Furniture & computer Equipment	43,911	10,029	-	53,940
Subtotal	43,911	10,979	-	54,890
Net Capital Assets Being Depreciated	33,130	38,630	-	71,760
Governmental Activities Capital Assets – Net of Depreciation	\$ 930,326	\$ 135,415	\$ 23,400	\$ 1,042,341

GLADWIN COUNTY DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 4. CAPITAL ASSETS (Continued)

Capital assets not being depreciated consist of the Library Collection, which is an estimated value of the Library's books, videos, and reference materials. The Library Collection is valued at the computed rate of \$15 per item, applied to the number of items on hand December 31, 2007.

NOTE 5. LEASES

The Library rents building space for its branch under an operating lease on a month-to-month basis from the City of Gladwin. Total rent expense under this operating lease for the year ended December 31, 2007, was \$36,629.

NOTE 6. RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for general liability, property casualty and health claims and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage.

NOTE 7. PENSION PLAN

The pension plan is through the Municipal Employees' Retirement System of Michigan. Total pension expense under this program for the year ending December 31, 2007, was \$19,761.

NOTE 8. FUND BALANCE RESERVES

Reserves represent those portions of fund balance which are not available for expenditure or are legally segregated for a specific future use, these funds are restricted for enhancements to the Library's materials. The reserves of fund balance at December 31, 2007, are the following:

Williams Memorial Estate (Reserved)	\$ 526,696
	<hr/>
Total Reserved Funds	<u><u>\$ 526,696</u></u>

GLADWIN COUNTY DISTRICT LIBRARY
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ending December 31, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget - Favorable (Unfavorable)
Revenue				
Property tax	\$ 420,000	\$ 425,342	\$ 425,342	\$ -
Other taxes	2,479	2,208	627	(1,581)
State revenue	18,726	20,651	20,570	(81)
Grant revenue	-	1,015	665	(350)
Contributions	5,700	5,700	117,446	111,746
Library fees	14,200	14,630	17,352	2,722
State penal fines	160,000	160,000	176,838	16,838
Interest income	3,033	6,803	10,379	3,576
Interest income - William Memorial (CD)	-	20,000	25,772	5,772
Other revenue	-	3,773	6,167	2,394
Total revenue	624,138	660,122	801,158	141,036
Expenditures				
Current:				
Rent	36,600	36,700	36,629	71
Bank charges & fees	3,000	2,000	3,998	(1,998)
Cash short & (over)	(200)	(300)	(290)	10
Legal & Professional Services	8,000	18,000	16,633	1,367
Salaries	225,000	230,000	234,092	(4,092)
Payroll Expenses	15,000	17,000	17,566	(566)
Pension	28,000	20,000	19,761	239
Supplies and printing	16,000	18,000	12,151	5,849
Postage/meter rental	8,000	5,000	3,359	1,641
Misc/Refunds/Rebates	700	700	636	64
Publicity	5,000	5,000	3,898	1,102
Membership fees	500	500	444	56
Contractual services	25,000	8,000	6,500	1,500
Contractual services - White Pines	11,000	13,000	11,555	1,445
Valley library	18,000	18,000	17,711	289
Training	4,000	5,000	3,109	1,891
Telephone	8,000	10,000	8,792	1,208
Insurance	58,561	61,061	55,798	5,263
Travel	4,000	5,000	5,213	(213)
Children programs	6,000	6,500	6,271	229
Utilities	22,000	20,000	20,176	(176)
William Estate expenses	-	20,000	12,701	7,299
Maintenance expenses	3,000	6,500	5,270	1,230
Software equipment	20,000	14,000	5,627	8,373
Tax tribunal & Board of Review	400	400	151	249
Capital outlay:				
Library materials	86,280	100,280	96,785	3,495
Furniture and equipment	-	2,794	2,794	-
Building	-	46,815	46,815	-
Contingent	70,697	70,226	-	70,226
Total expenditures	682,538	760,176	654,145	106,031
Revenues over expenditures	(58,400)	(100,054)	147,013	247,067
Fund balance - beginning of year	581,804	581,804	581,804	-
Fund balance - end of year	\$ 523,404	\$ 481,750	\$ 728,817	\$ 247,067

April 22, 2008

Members of the Board of Trustees
Gladwin County District Library
Gladwin, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of the Gladwin County District Library (the "Library") as of and for the year ended December 31, 2007 in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the following deficiencies in internal control that we consider to be significant deficiencies.

SIGNIFICANT DEFICIENCIES

Accounting System and Procedures Manual (Repeat comment)

During discussion with management, it was noted that there is no written accounting policies and procedures manual in place at this time.

We recommend that a policies and procedures manual be written encompassing accounting as well as other procedures of the accounting department. The manual should cover, but not be necessarily limited to the following areas:

- 1) Management authorization procedures.
- 2) Segregation of duties, so that the work of one individual provides a cross check on the work of one or more other individuals.
- 3) Descriptions of all documents and records and how they are used.
- 4) Access controls of both physical assets as well as accounting records.
- 5) Special control with regard to your computerized accounting information system.
- 6) Establishment of a policy relating to the investigation and resolution of unreconciled general ledger account balances and the responsibility to record correcting journal entries.
- 7) Methods and procedures used in properly reconciling the bank accounts and agreeing the balances to the proper general ledger accounts. This would include the proper recording and reconciliation of any bank wire transfers or automatic transactions.

Good internal accounting control requires that well established and written accounting procedures be maintained within an organization. Development of an accounting and procedures manual will allow the organization to review present procedures and develop new procedures which will improve internal control and assist management in monitoring the recording and safekeeping of assets. It would also allow the Library Director to continually monitor the Library's resources and hire additional personnel when a need is apparent to assure that all necessary procedures be completed on a timely basis.

Appropriations in Budgetary Funds (Repeat comment)

P.A. 2 of 1968, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. We noted during our audit that the Library incurred expenditures in excess of the amount appropriated.

We recommend the modified accrual basis of accounting be considered when adopting and amending the budget for the Library. The budget should be amended during the year to reflect expenditures expected to be made in excess of the original budget amounts. These amendments must be approved by the Library Board and documented in the Board's meeting minutes. This will help prevent the Library from incurring expenditures in excess of appropriations.

Gladwin County District Library
April 22, 2008
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This communication is intended solely for the information and use of management, Gladwin County District Library Board of Trustees, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Burnside & Lang, P.C.

BURNSIDE & LANG, P.C.
April 22, 2008

April 22, 2008

Members of the Board of Trustees
Gladwin County District Library
Gladwin, Michigan

Dear Board Members:

We have audited the financial statements of the Gladwin County District Library (the "Library") for the year ended December 31, 2007 and have issued our report thereon dated April 22, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated December 5, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Library are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the 2007 fiscal year. We noted no transactions entered into by the Library during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Library's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Library, either individually or in the aggregate, indicate matters that could have a significant effect on the Library's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

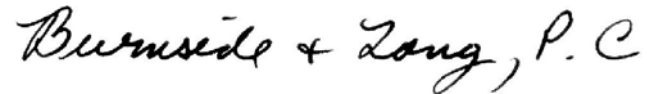
Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Gladwin County District Library
April 22, 2008
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This information is intended solely for the use of the Board of Trustees and management of the Gladwin County District Library and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script that reads "Burnside & Lang, P.C.".

BURNSIDE & LANG, P.C.
Midland, Michigan
April 22, 2008